

# **Commonwealth of Kentucky Personnel Cabinet and Cabinet for Health and Family Services**

**Presentation to:  
The Joint Meeting of the Employee Advisory  
Committee and the Kentucky Group Health  
Insurance Board**

April 27, 2005



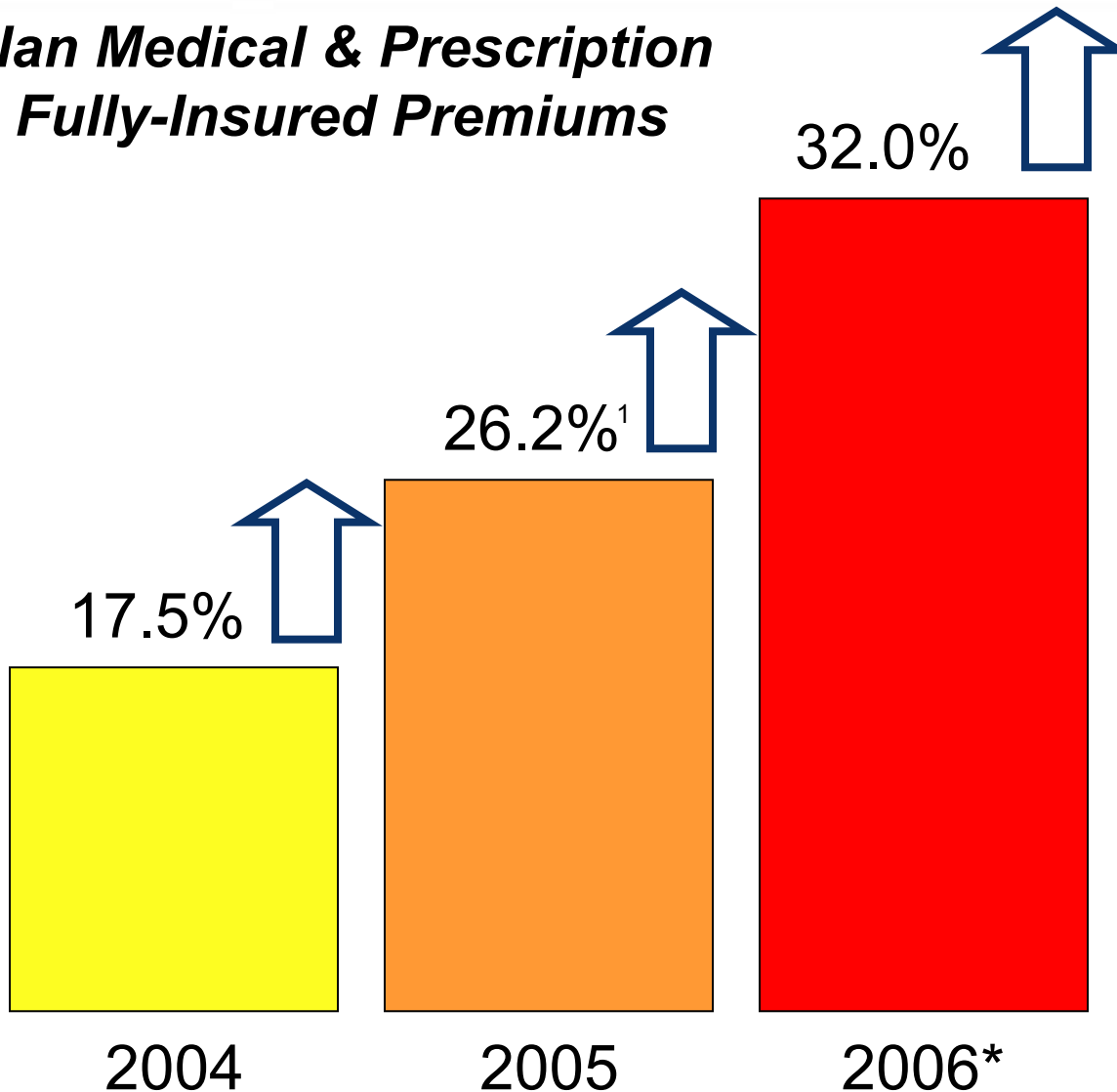
# Agenda

- Self-Insuring the Public Employee Health Insurance Program
- Overview of the 2006 Plan Year
- Communication Plan

# The Cost Challenges Facing Kentucky

## *Total Plan Medical & Prescription Drug Fully-Insured Premiums*

1,200M  
1,100M  
1,000M  
900M  
800M  
700M  
600M  
500M  
400M



***More than  
Double  
National  
Average  
Fully-  
Insured  
Increases...***

1: Source – Commonwealth of Kentucky 2005 budget; not audited by PwC

\*Estimate



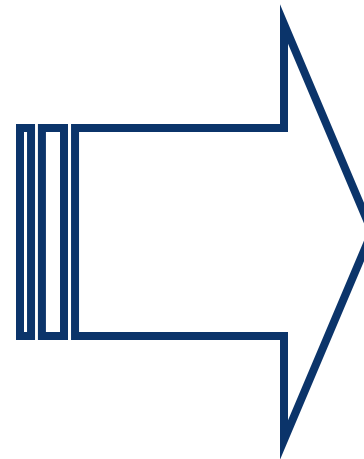
# Moving the Kentucky Plans In the Right Direction

**A real solution to the healthcare cost crisis is only achievable over the long-term, but solid progress can—and must—be made in the short-term.**

## **What We Must Do Now...**

- Institute industry best practices in health plan funding
- Maximize the Plan's purchasing power
- Streamline plan administration and cost
- Ensure best available network discounts
- Secure best available pharmacy cost structure

## **Our First Step**



**Self-Insure  
the Plan**

# Self-Insurance – What Is It? What Would Change as a Result

What Would Change...	What Would <u>NOT</u> Change...
<ul style="list-style-type: none"><li>• The State would fund the Plan without the use of an external insurer</li><li>• The State would increase it's ability to control costs and reduce administrative expenses</li><li>• The State would be better positioned to get the best price for the healthcare benefits it provides</li><li>• The State would no longer pay risk charges and margins to insurance companies</li></ul>	<ul style="list-style-type: none"><li>• Plan members would see no change in the benefits they currently receive</li></ul>

# Why Self-Insure?

<b>If the State Self-Insures it will...</b>	<b>If the State <i>does nothing</i>, it will continue to experience...</b>
<ul style="list-style-type: none"><li>• Have greater control of overall plan management and vendor performance</li><li>• Have greater flexibility over benefit levels and types provided</li><li>• Not incur risk charges from an insurer</li><li>• Reduce total administrative costs</li><li>• Be able to administer the Plan consistently across entire state</li><li>• Realize cash flow savings and investment income</li></ul>	<ul style="list-style-type: none"><li>• Increased premiums year over year due to insurers' "making up" deficits of previous year bids</li><li>• Less control over care management and other cost management strategies</li><li>• Reduced negotiating power as a result of splitting the State into multiple regions</li></ul>

# Self-Insured Plans Have Been Increasing In Cost at a Slower Rate Than Fully-Insured Plans

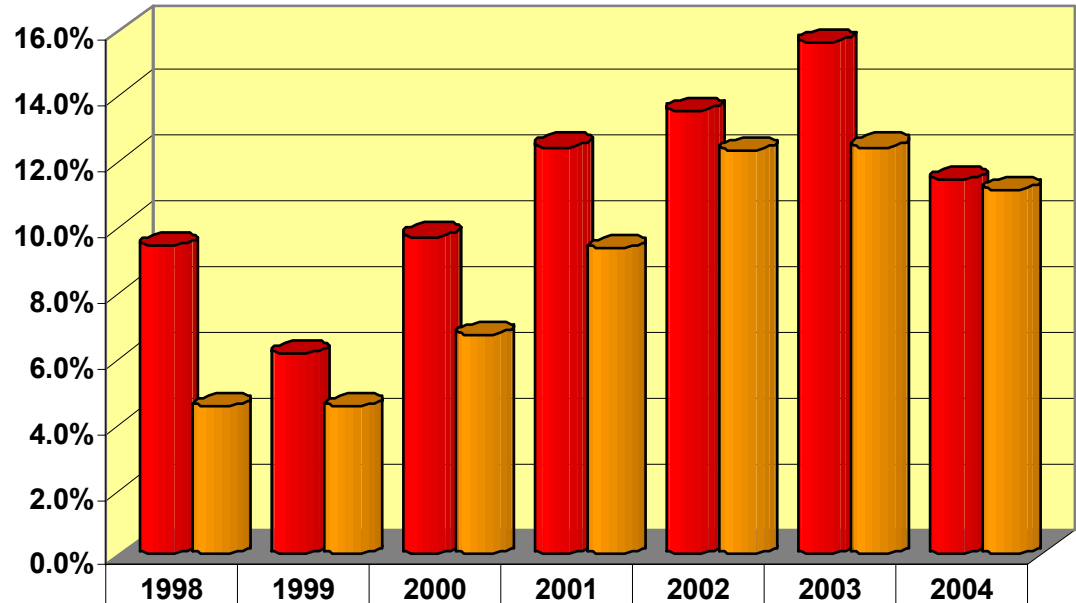
National Survey  
of....

**Fully-Insured  
Premium  
Trends**

VS.

**Self-Insured  
Health Cost  
Trends**

Fully-Insured and Self-Insured Cost Increases



Fully-Insured	9.4%	6.1%	9.7%	12.4%	13.5%	15.6%	11.4%
Self-Insured	4.5%	4.5%	6.7%	9.3%	12.3%	12.4%	11.1%

Kaiser Family Foundation. Employer Health Benefits, 2004 Annual Survey. September 2004.

# Self-Insured Has Become *the* Choice for Large Employers

- 54% of covered workers in 2004 are in a plan that is completely or partially self-funded
- 80% of workers in jumbo firms (5,000 or more workers) are covered in self-funded plans

Percentage of Covered Workers in Partially or completely Self-Funded Plans, by Firm Size, 1996 - 2004					
	All Small Firms	Midsize Firms	Large Firms	Jumbo Firms	All Firms
1996	24	58	66	67	56
1998	15	50	63	65	50
2000	15	53	69	72	49
2001	17	52	66	70	49
2002	13	48	67	72	49
2003	10	50	71	79	52
2004	10	50	78	80	54

Source: 2004 Kaiser Annual Survey





# And It's Certainly *the* Choice for Government Employers

**More than 60% of the indemnity, POS, and PPO health plans offered by all 50 states are self-funded.**

Percentage of Self-Funded Plans by Plan Type *	
Plan Type	Percentage
Indemnity	71%
POS	69%
PPO	64%
HMO	32%
*This includes plans with or without stop-loss insurance Source: 2003 Segal State Health Benefits Survey: Medical benefits for Employees and Retirees.	

Note: 1 Segal surveyed all 50 states. 39 states provided their enrollment packages and 34 states completed all or portions of the survey questionnaire

# *The Choice for Government Employers* (continued)

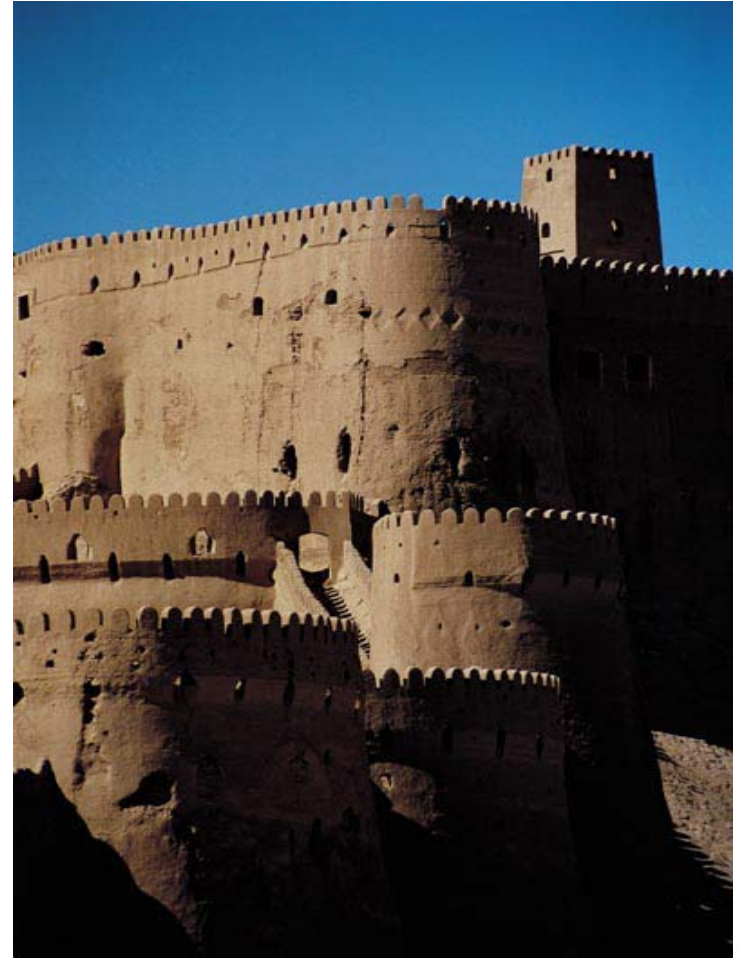
## Percentage of Covered Workers Under Different Funding Arrangements, by Industry, 2004

All Plans	Fully Insured (Coverage Underwritten by an Insurer)	Self-Funded (Employer Bears Some or All of Financial Risk)
Mining/Construction/ Wholesale	65%	35%
Manufacturing	27%	73%
Transportation/ Communication/ Utility	27%	73%
Retail	51%	49%
Finance	58%	42%
Service	59%	41%
State/ Local Government	41%	59%
Healthcare	31%	69%
All Industries	46%	54%

Source: 2004 Kaiser Annual Survey

# Safeguarding the Future – Establishing Reserves

- Some employers establish reserves to safeguard against claims fluctuation
  - Allocating cash reserves is one method
  - Another approach is to build reserves over time through a margin in the premium equivalent
  - The State earns investment income on reserve funds



# In Summary...



Self-Insuring the Public Employee Health Insurance Program will have a positive impact on the Plan and member...

- Cost
- Administrative Service

**Self-Funding =  
a strong first step,  
but more needs  
to be done.**





# 2006 Plan Year

- **Plans for 2006:**

- Convert all Employees to a self-insured program effective January 1, 2006 with the Current Benefit Plans on a Self-Funded Platform
- Issue a RFP in May of 2005 for TPA(s) to administer the Commonwealth Self-Insured Plan
  - Focus on Best Practices in Administration
  - Technology/Data Management
  - Network Capacity and Pricing
  - Disease management/Wellness approaches
  - Pharmacy Administration
- Consider altering benefits structure for the Plan Year July 2006 with recommendations from the Blue Ribbon Panel, 2006 Legislative Actions, Employee Advisory Committee, the Health Insurance Board and others.



# Improving Communications

- Open Communication
- Innovative Team Effort for Better Quality
  - Strategic Partners
    - Employee Advisory Committee, KY Group Health Insurance Board, Blue Ribbon Panel, Legislators, etc.
  - Stakeholders
    - State and School Board Employees, Retirees, Taxpayers and others

# Objectives

- Generate Confidence with Strategic Partners/Stakeholders
  - Gather information from numerous sources
  - Share information as it becomes available
- Establish Engagement
  - Coordinate communication efforts with partners and respective constituents
  - Improve communication through letters, newsletters, Personnel Cabinet Web site, etc.

# Objectives

- Create Consumer Driven Culture Through Education
  - Educate participants on health insurance
    - How does it apply to them
    - Help participants realize the value of their healthcare
    - Help participants make the right decisions for themselves and/or family